

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0766-04
Bill No.: HCS for HB 347
Subject: Energy; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: March 23, 2007

Bill Summary: Would provide an income tax credit for alternative fuel facilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$0	(\$2,490,000)	(\$1,660,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$2,490,000)	(\$1,660,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Transportation Fund	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no added cost to their organization as a result of this bill. BAP officials stated that this proposal would authorize a tax credit for any eligible applicant who installs and operates an alternative fuel vehicle refueling facility. The amount of tax credits authorized in taxable year 2008 will be \$3 million, \$2 million in 2009, and \$1 million in 2010. Therefore, general and total state revenues could be reduced accordingly. The proposal would also reduce the tax rate on E-85 fuel from 17-cents per gallon to 13-cents per gallon. This would reduce motor fuel taxes by an unknown amount. BAP defers to the DOR for an estimate of the impact of this proposal.

Officials from the **Department of Revenue** (DOR) assume this proposal would have no fiscal impact on their organization. DOR officials did not provide an estimate of the reduction in motor fuel tax revenue due to the reduction from seventeen cents per gallon to thirteen cents per gallon.

Officials from the **Office of the Secretary of State** (SOS) provided the following information.

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Agriculture** (AGR) assumed their organization would be responsible for issuing and transferring tax credits. AGR officials submitted an estimated cost to implement this proposal including one additional FTE Senior Office Support Staff and related equipment, expense, and tax credits totaling \$3,035,219 for FY 2008, \$2,043,446 for FY 2009, and \$1,044,748 for FY 2010.

ASSUMPTION (continued)

Oversight notes that the DOR would be responsible for all processing of tax credits under the proposal and assumes that any additional workload for the AGR could be absorbed with existing staff. If unanticipated additional costs are incurred or if multiple proposals are enacted which increase the Department of Agriculture workload, resources could be requested through the budget process.

Oversight assumes that the reduction of the sales tax rate on E-85 fuel would not change the DOR workload, and will indicate a revenue reduction greater than \$100,000 for the State Transportation Fund and for Local Governments.

Officials from the **Department of Natural Resources** (DNR) assume that a previous version of the proposal would establish a tax credit for any eligible applicant who installs and operates a qualified alternative fuel vehicle refueling property between January 1, 2008 and January 1, 2011. The allowed credit could not exceed the lesser of \$20,000 or 20% of the total costs directly associated with the purchase and installation of any alternative fuel storage and dispensing equipment on any qualified alternative fuel vehicle refueling property.

The cumulative amount of tax credits which could be claimed by eligible applicants are:

\$3,000,000 in 2008 (FY 2009);
\$2,000,000 in 2009 (FY 2010); and
\$1,000,000 in 2010 (FY 2011).

DNR and the Department of Revenue (DOR) may promulgate rules to implement the provisions of this tax credit. DNR would review and certify tax credit applications to DOR for each eligible applicant that qualifies for the tax credit. It is unclear if the department would be required to establish an appeals process for any application not certified for the tax credit.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued.

This proposal would reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Revenue reduction - DOR</u>			
Tax credits	\$0	(\$2,490,000)	(\$1,660,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$2,490,000)</u>	<u>(\$1,660,000)</u>
TRANSPORTATION FUND			
<u>Revenue reduction - DOR</u>			
Tax reduction of E-85 motor fuel	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
ESTIMATED NET EFFECT ON TRANSPORTATION FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2008 (10 Mo.)	 FY 2009	 FY 2010
LOCAL GOVERNMENTS			
<u>Revenue reduction - DOR</u>			
Tax reduction of E-85 motor fuel	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
 <u>FISCAL IMPACT - Small Business</u>			

This proposal could have a fiscal impact to small businesses which sell motor fuel.

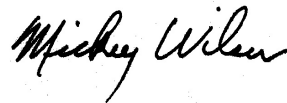
FISCAL DESCRIPTION

The proposal would provide an income tax credit for alternative fuel facilities and would reduce the motor fuel tax on E-85 fuel.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Department of Agriculture
Department of Natural Resources
Department of Revenue
Department of Economic Development

A handwritten signature in black ink, reading "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 23, 2007